NorthStream Credit Strategies Fund LP
Monthly Commentary: August 2022

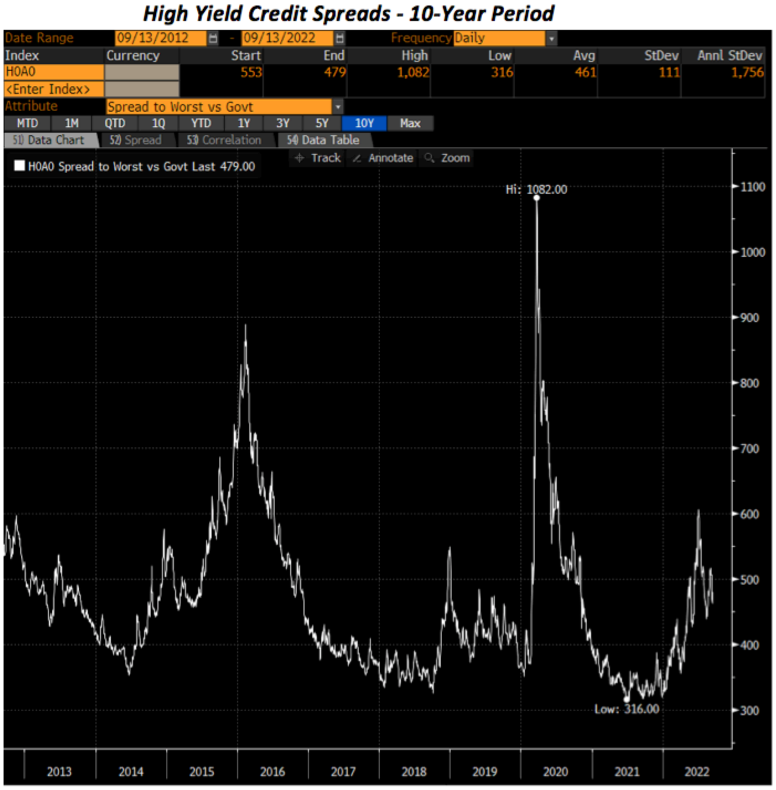
Elevated Risk Without the Reward Continues

Our July commentary focused on the reliability of an inverted yield curve in predicting a recession. Additionally, we highlighted that high yield credit spreads typically widen out to over 800 basis points during a recessionary period presenting the possibility of a double-digit capital loss on the index based on credit spreads being at 497 basis points at the end of July. Our conclusion was that risk vs reward was not favourable and that a defensive portfolio positioning was warranted.

The August US CPI data that was just released confirmed that inflationary pressures have not subsided. We continue to believe that the risk of widening credit spreads is significant. We've received further confirmation of inflation risk, however there has been no real change in the risk premium. High yield credit spreads currently stand at 479 basis points with a yield to maturity of 8.45%, below the June 30th, 2022 high of 8.95%.

After slowing sharply in July, US core CPI inflation accelerated in August, coming in at 0.6% MoM, above consensus expectation of 0.3%. Strength was broad-based across core goods and services. The YoY reading for core CPI rose back up to 6.3%, just below its March peak level of 6.5%. A sharp decline in energy prices contributed to the lower 0.1% MoM reading in headline inflation, despite another strong increase in food prices. YoY headline inflation fell for the second consecutive month to 8.3% but is uncomfortably higher than the Fed funds rate and revised terminal rate of 4.25%-4.50% expected in the April 2023 timeframe. The persistent inflationary pressures warrant more front loading of interest rate hikes and a higher terminal rate.

High Yield Credit Spreads - 10-Year Period



Source: Bloomberg

In early September we saw the markets positioning for a positive surprise (lower inflation) in the August US CPI figures as risk assets appreciated with softening energy prices. We see risk asset valuations still supported by the hope or expectation that inflation declines rapidly to the 4% area in the next two quarters. If inflation does not decline rapidly, we can expect the Fed to front load interest rate hikes and likely increase the terminal rate, which will be negative for risk assets. We do not see a bottom for risk assets until we get closer to the end of the tightening cycle. A Fed pivot is unlikely to occur with favourable credit conditions and secondary market credit spreads being roughly at their 10-year average. A Fed pivot is not on the near horizon based on the chart showing high yield credit spreads over the past 10 years.

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The NorthStream Credit Strategies Fund returned -1.33% for the month of August compared to a -3.51% decline for the high yield index and a -3.83% decline in the investment grade bond index. We are maintaining a very defensive positioning with a portfolio duration of 1.3 years compared to a duration of 4.4 years for the high yield index and 8.7 years for the investment grade bond index. Recall that a 100-basis point increase in interest rates or spreads will result a decline equal to the portfolio duration. For example, the impact on the principal value on an investment grade portfolio would result in a decrease in the market value of approximately 8.7 points relative to par.

At the current spread to worst of 479 basis points and the expectation of further tightening financial conditions, we believe the risk profile of the credit markets is not favourable. Presently we are focused on having ample liquidity and being prepared for the period where credit spreads widen rapidly as tightening financial conditions impact bond prices.

NorthStream Credit Strategies Fund LP - Performance

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2022	1.35%	0.24%	5.67%	3.81%	3.74%	2.09%	-0.95%	-1.33%	-	-	-	-	**15.35%**
2021	10.84%	4.70%	4.87%	-0.06%	1.23%	4.20%	-0.20%	-0.55%	3.78%	1.09%	-0.56%	0.08%	**32.94%**
2020	0.32%	-0.43%	-14.44%	0.43%	1.03%	3.67%	1.01%	2.99%	1.88%	2.36%	2.18%	9.47%	**9.09%**
2019	1.08%	1.34%	0.41%	0.79%	-1.41%	1.00%	0.99%	-0.31%	0.86%	-1.99%	0.01%	0.75%	**3.53%**
2018	1.32%	0.01%	0.72%	0.72%	0.52%	-0.17%	0.30%	0.30%	-0.11%	-0.61%	-1.44%	-0.67%	**0.85%**
2017	2.69%	0.66%	-0.89%	0.64%	0.63%	0.02%	0.31%	1.30%	1.03%	1.40%	0.66%	1.58%	**10.46%**
2016	-	-	-	-	0.49%	0.81%	3.40%	2.98%	2.29%	2.12%	0.75%	2.88%	**16.80%**

The NorthStream Credit Strategies Fund LP ("the Fund") launched on May 2, 2016. The monthly returns above are shown net of all fees and expenses and are based on the Fund's Class X Lead Series NAV. Monthly NAV and returns are calculated by SGGG Fund Services Inc. Past performance is not indicative of future results. Performance, risk metrics and correlations are as of August 31, 2022. Note that the use of the XGB, TSX, and S&P 500 in the performance tables below is for informational purposes only. The XGB (iShares Canadian Government Bond index ETF), TSX, and S&P 500 have a different composition than the Fund and are not comparable benchmarks. The XGB, TSX, and S&P 500 were chosen to compare the Fund's performance returns against other asset classes.

Return Since Inception: 125.35%

Performance & Risk Metrics	
Return Since Inception	125.35%
YTD	15.35%
1-YR Return	20.44%
Annualized Since Inception	13.69%
% of Positive Months	77.63%
Maximum Drawdown	-14.81%
Annualized Standard Deviation	9.69%
Sharpe Ratio[1]	1.03

Correlation

Index	XGB[2]	TSX	S&P500
Correlation	-20.73%	43.00%	26.42%
Upside Capture	80.92%	57.63%	36.87%
Downside Capture[3]	-116.89%	-9.45%	-13.70%

1 Using 1-year T-bills.
2 iShares Canadian Government Bond Index ETF (XGB).
3 Negative downside capture vs. XGB, TSX, and S&P 500 is a result of NorthStream generating positive returns in months when these indices generated negative returns.

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